

## Message Text

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TO USDEL SECRETARY PRIORITY

C O N F I D E N T I A L STATE 179175 TOSEC 080152

NODIS

FOR THE SECRETARY FROM LORD

E.O. 11652: GDS

TAGS:EGEN

SUBJECT: GISCARD'S PROPOSAL FOR AN ECONOMIC SUMMIT

1. IT APPEARS THAT WHILE WE DON'T HAVE A FULL REPORT ON EITHER THE SCHMIDT-GISCARD TALKS OR ON YOUR MEETING WITH SCHMIDT, SCHMIDT AND GISCARD HAVE REACHED AGREEMENT IN PRINCIPLE ON AN ECONOMIC SUMMIT. THEY MAY USE THE FOUR-POWER CSCE LUNCHEON TO ELICIT A POSITIVE RESPONSE FROM US. THE HARTMAN/ENDERS MEMORANDUM TO THE PRESIDENT ON THE LUNCHEON SUGGESTED A DISCOURAGING RESPONSE TO GISCARD'S PROPOSAL. FOLLOWING IS THE CASE FOR A DIFFERENT RESPONSE WHICH I BELIEVE YOU SHOULD BE EXPOSED TO. SUCH A RESPONSE WOULD INDICATE SOME INTEREST, PROVIDED THAT THE SUMMIT CLEARLY DEALS WITH A BROAD RANGE OF ECONOMIC CONCERNS, NOT JUST MONETARY MATTERS, THAT THE SUMMIT IS RESTRICTED BUT INCLUDE JAPAN, AND THAT THE FRENCH SHOW SOME FLEXIBILITY ON THE ISSUES.

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2. THE FRENCH SEE THE SUMMIT MAINLY AS A MEANS OF FORCING

AGREEMENT ON A FIXED EXCHANGE RATE REGIME. THE GERMANS VIEW IT AS A MEANS OF OBTAINING CLOSER COORDINATION OF ECONOMIC POLICIES AMONG THE FIVE MAJOR ECONOMIC POWERS. THE US SO FAR HAS BEEN STANDOFFISH ON BOTH ISSUES. WE HAVE PREFERRED THE EXISTING AD HOC, HIGHLY FLEXIBLE EXCHANGE RATE SYSTEM TO THE FRENCH PREFERENCE FOR MORE TRADITIONAL FIXED-PAR-VALUES. WE HAVE BEEN SCEPTICAL ABOUT THE NEED TO COORDINATE ECONOMIC POLICIES AS LONG AS EXCHANGE RATES ARE SO HIGHLY FLEXIBLE.

3. THERE MAY BE BOTH ECONOMIC AND POLITICAL GAIN FOR THE UNITED STATES IN ACCEPTING THE EUROPEAN BID FOR AN ECONOMIC SUMMIT. AS I SUGGESTED IN MY MEMORANDUM TO YOU ON MONETARY REFORM BEFORE YOUR LAST MEETING WITH GISCARD, THERE COULD BE ECONOMIC ADVANTAGE IN A SOMEWHAT MORE STABLE WORLD MONETARY SYSTEM. MOVING COMPLETELY TOWARDS THE FRENCH GOAL OF FIXED RATES WOULD NOT BE IN OUR ECONOMIC INTEREST. BUT IT IS NOT CLEAR THAT THE MORE EXTREME US POSITION, OSTENSIBLY FAVORING THE PRESENT AD HOC SYSTEM OF HIGHLY FLUID EXCHANGE RATES, IS MUCH BETTER. THE ESSENTIAL POINT IS THAT THERE MAY BE ALTERNATIVES BETWEEN THE TWO THAT BOTH SERVE OUR ECONOMIC INTERESTS AND SATISFY POLITICAL EXIGENCIES. FURTHERMORE, A SERIOUS SUMMIT COMMITMENT TO ACHIEVE BETTER POLICY COORDINATION WOULD BUILD CONFIDENCE, PROVIDE A MORE SUPPORTIVE ATMOSPHERE FOR WORLD ECONOMIC RECOVERY, AND HELP MEET EUROPEAN CONCERNS.

4. WHEN POLITICAL CONSIDERATIONS ARE TAKEN INTO ACCOUNT, THE WEIGHT OF ARGUMENT FOR AN ECONOMIC SUMMIT BECOMES EVEN GREATER.

5. FIRST, A SUMMIT AND SOME MEASURE OF AGREEMENT ON ECONOMIC POLICY COORDINATION AND THE MONETARY PROBLEM WOULD STRENGTHEN GISCARD AND SCHMIDT AT HOME. THEY ARE BOTH WORRIED ABOUT THE EROSION OF POLITICAL EFFECTS OF ECONOMIC RECESSION. OTHER EUROPEAN COUNTRIES ARE ANXIOUS TO SEE THE UNITED STATES AND FRANCE COME TO A MONETARY ACCORD. CONTINUING CONTENTION OVER THIS ISSUE IS DESTABILIZING POLITICALLY AND ECONOMICALLY IN EUROPE.  
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6. SECOND, NEXT TO THE NUCLEAR ISSUE THERE IS NO OTHER PROBLEM THAT HAS SPLIT THE UNITED STATES AND FRANCE MORE THAN MONETARY REFORM. MOREOVER, THE RETURN OF FRANCE TO THE EUROPEAN SNAKE MAKES IT MORE IMPORTANT THAN EVER FOR HER TO REACH AGREEMENT WITH THE UNITED STATES ON GREATER MONETARY STABILITY. FOR IF THE SNAKE APPRECIATES AGAINST THE DOLLAR, FRENCH RECOVERY COULD BE ABORTED AS

THE DOLLAR DEVALUES AND ERODES THE COMPETITIVE FRENCH POSITION IN EXPORT MARKETS. IF FRANCE FAILS TO RECOVER, THE FRENCH ARE LIKELY TO TAKE VERY DRASTIC STEPS TO INSULATE THEIR ECONOMY AGAINST WHAT THEY CONSIDER TO BE DELETERIOUS EFFECTS OF US INDUCED INSTABILITY. DOMESTIC PRESSURES ON GISCARD WILL MOUNT AND THE US COULD WELL BECOME HIS PRIME CANDIDATE AS A WHIPPING BOY ON WHICH TO BLAME HIS ECONOMIC TROUBLES, WITH MARKED FALLOUT ON OUR

GENERAL POLITICAL RELATIONS WITH FRANCE AND WITH WESTERN EUROPE AND THE EEC GENERALLY.

7. THIRD, A PRINCIPAL PROBLEM IN THE CURRENT SITUATION IS THE ABSENCE OF LEGITIMACY OF THE MONETARY SYSTEM BECAUSE OF LACK OF AGREEMENT ON RULES TO GOVERN EXCHANGE RATES. THUS, THE CURRENT MONETARY AD-HOC SYSTEM IS UNSTABLE, IS UNSETTLING POLITICALLY TO THE OVERALL INTERNATIONAL SYSTEM, AND IS UNLIKELY TO SURVIVE UNTIL A CONSENSUS RESULTS IN MORE ACCEPTABLE RULES. THE GERMANS ARE UNHAPPY WITH THE PRESENT SYSTEM BECAUSE LACK OF POLICY COORDINATION HAS NOT LED TO RAPID ENOUGH ECONOMIC RECOVERY AND HAS OFTEN IN THE PAST PUSHED THE MARK TO UNACCEPTABLY HIGH LEVELS, DAMAGING THEIR POLITICALLY IMPORTANT EXPORT INDUSTRIES. THE ITALIANS AND THE BRITISH FEEL THE PRESENT UNCOORDINATED WORLD ECONOMIC SYSTEM DOES NOT PROVIDE THEM WITH ADEQUATE HELP TO OVERCOME THEIR SEVERE BALANCE OF PAYMENTS PROBLEMS AND HAS FORCED THEM TO TAKE POLITICALLY UNPOPULAR MEASURES TO RIGHT THEIR PAYMENTS SITUATION.

8. FINALLY, AS I SUGGESTED IN THE MEMO ON MONETARY REFORM, FAILURE TO COME TO AN ACCORD COULD SERIOUSLY ENDANGER A SERIES OF IMPORTANT UNITED STATES FOREIGN POLICY  
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INITIATIVES SUCH AS THE IMF TRUST FUND, BUFFER STOCK FINANCING, AND EXPORT EARNINGS STABILIZATION, RELATING TO THE NORTH/SOUTH ISSUE. THE COST OF DELAY BECOMES EVER MORE SERIOUS AS WE GET CLOSER TO THE SEVENTH SPECIAL SESSION AND THE PRODUCER/CONSUMER DIALOGUE.

9. THUS, WE FEEL AN APPROPRIATE RESPONSE TO GISCARD AT THE FOUR-POWER LUNCHEON SHOULD BE TO:

-- NOTE WITH INTEREST HIS PROPOSAL FOR AN "ECONOMIC SUMMIT" AND ASK WHAT HE HAS IN MIND;

-- SAY THAT THE AGENDA OF SUCH A CONFERENCE, IF HELD, SHOULD RANGE ACROSS THE MAJOR ECONOMIC CONCERNS NOW CONFRONTING THE INDUSTRIAL WORLD; NOT JUST MONETARY MATTERS;

-- INDICATE THAT ONCE WE HAVE A CLEAR VIEW AS TO WHAT  
GISCARD HAS IN MIND, WE WILL PROVIDE A CONSIDERED  
RESPONSE; AND

-- POINT OUT THAT, IN ANY EVENT, PROGRESS ON A MONETARY  
ACCORD REQUIRES COMPROMISE BASED ON A FLEXIBLE BUT MORE  
STABLE EXCHANGE RATE ARRANGEMENT. INGERSOLL

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